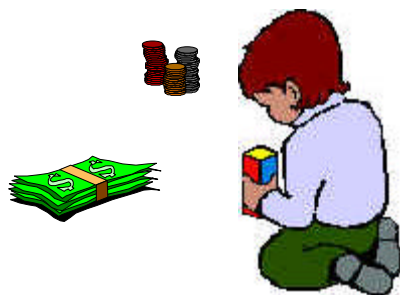


CHILDREN AND MONEY



A mini-lesson for:

elementary and secondary teachers

adult and community educators

students and parents

This mini-lesson includes learning objectives, background information, discussion questions, an activity and sources of additional information.

OBJECTIVES

Learners will:

- ◆ Understand the importance of money management skills for children
- ◆ Learn age-appropriate ways to develop financial awareness and skills
- ◆ Use allowances to help children practice financial responsibility

Financial Facts of Life

Children and teenagers earn, save, spend, and borrow billions of dollars each year in the marketplace. They have more money to spend than previous generations and develop spending patterns at a younger age. Children's attitudes about money are most influenced by their parents, the media, their peers, and their own successes and failures in spending money. The buying habits of children and teenagers are learning experiences. Their money management skills will develop from the ideas, attitudes and spending habits they learn at home, school and in the marketplace. Those who learn good money management skills are more likely to become adults who can make sound

financial decisions, avoid excessive debt and manage income and expenses to reach their financial goals.

Parental Responsibility

Parents can help children become effective money managers and responsible buyers by teaching them money management skills from an early age. Financial education should be based on the needs, interests and abilities of each child. The following guidelines may be helpful:

Under 5. Around age 3. You can start talking to your children about money. Use a piggy bank to teach how to identify and count coins and cash. Between 4 and 5, you can explain the importance of good savings habits. Help them learn that saving for a specific item and then buying it gives great satisfaction. Take your child to the store to actually see a toy he or she saw advertised. Together, examine the toy and decide if it can really live up to the promises made in the commercial. Children at this age are quite aware of commercials and sing the jingles they hear on the television and radio. Begin talking with them about the financial realities of the family and how choices are made.

Ages 5 to 10. When children start school is a good time to give an allowance and open a savings account. You can teach them to plan the use of their money, whether from allowances or money gifts. You can also suggest that they can earn extra money by doing additional household jobs. When children begin spending money you can help them analyze their decision making. They will learn that there are consequences when we make poor decisions and that it is important to prioritize needs and wants.

Ages 11-14. When children enter adolescence they are concerned about what their friends are doing and buying. Consequently, they tend to adopt the spending patterns of their peers. It is a good time to demonstrate the importance of comparison shopping when you buy goods and services. During this time many teens find jobs such as baby-sitting, lawn mowing or snow shoveling. They can save the money they earn or spend it for extras such as clothing, accessories and CDs. It is important that they have control of their money because their financial successes and failures will become valuable learning experiences.

Ages 15-18. These are difficult years when teens are trying to become independent but are still financially dependent on their parents. This is the time to seriously discuss savings for long-term goals such as college or a car. To obtain these goals many teens have part-time jobs such as fast-food restaurant workers, salesclerks or cashiers. During their senior year in high school, some students obtain a checking account and/or a credit card to be used in college.



Spending Plan

A spending plan can encourage children to be careful money managers. The following topics can be discussed with the child:

- ◆ identify income, including allowances and gifts
- ◆ set goals based on needs and wants
- ◆ determine expenses, both fixed and flexible
- ◆ develop a spending plan •
- ◆ revise the spending plan as needed

Allowances

An allowance is an important tool for teaching money management skills. The purpose of an allowance is to teach children how to manage their own money based on their needs, wants and goals. The child should have control over how the allowance is spent or saved. The parent can encourage children to make careful spending decisions and plan the use of their money. An allowance can help make children independent and give them confidence and self-discipline in handling money.

An allowance should be a specific amount of money, decided by both the child and parent and given at a specific time, such as weekly or monthly. As children get older they will probably have more money under their control and become more responsible for their personal spending. Also they tend to appreciate more the goods and services they buy with their own money, especially if they have saved for them over a period of time. An allowance can help eliminate the problem of parents having to say "no" when children ask for money regularly.

People have differing views on allowances. Some parents feel that the allowance should be earned by doing household tasks. Others feel that as members of the family, children are entitled to a share of the family income. An allowance can teach children the basics of money management and should not be used to punish the child. The following allowance tips can help parents decide:

When should an allowance start?

- ◆ An allowance should begin when children can identify coins and cash, know how to count and have spending opportunities. This often occurs around age 5 or 6.
- ◆ There should be regular family discussions of various financial issues, choices and decisions.

How much should the allowance be and how often should the allowance be paid?

- ◆ **For children ages 5 to 9**, the allowance should be paid once or twice a week. It can be a small amount that the child can either spend or save.
- ◆ **For children ages 9 to 12**, the allowance should be weekly, including an amount for savings and fixed expenses such as lunches and school supplies. Prepare a list of items you and the child agree should be covered by the

allowance. Giving children of this age more financial responsibility will help them learn to prioritize their needs and wants.

◆ **By age 13**, an allowance should be enough to cover savings, fixed expenses and spending money. In the teen years, ages 13 to 18, they need experience with managing larger sums of money and making decisions about how they spend and save money. Some parents suggest that by the time teens finish high school they should earn money to pay for all personal expenses such as clothing, entertainment and snacks.

◆ **Teens** who will go away to college may use a credit card and a checking account to pay college expenses. Credit is an important financial tool. They can learn how to handle credit responsibly if they are taught the advantages and disadvantages, the kinds and the costs of credit. Refer to the mini-lesson, *Students and Credit Cards*, which focuses on responsible credit card use.

When savings accounts reach about \$500, young people can be encouraged to invest in certificates of deposit, stock, mutual funds or U. S. Savings Bonds. Some companies offer junior shareholder programs or waive fees for small accounts.

What about Money Gifts?



◆ Younger children may need guidance on how to manage money gifts.

◆ Children over the age of 12 should be allowed to decide how to spend small money gifts. For larger gifts, parents could help them consider investments for longer-term goals such as a college education. The child should make the decision as to how the gift money is used.

◆ Parents can help children see how money helps them meet their needs, wants and goals. |

◆ Some children decide to save part of the money and spend the rest on something special, such as clothing or sports equipment.

Promote Financial Success

Parents can promote financial success for children in the following ways:

◆ Do not make a practice of giving additional money when children overspend. They may learn through experience about the importance of setting limits on spending and making reasoned choices.

- ◆ Consider loaning with interest charges, if they need an advance. The child will learn that borrowing money is very expensive.
- ◆ Help children establish attainable goals and develop a spending and saving plan to reach goals.
- ◆ Do not give allowances as rewards or behavior incentives.
- ◆ Set a regular time and date when the allowance will be paid. This is their "income" so it is not fair to make them wait.
- ◆ Let them spend or save their allowances without restrictions, except for the agreed upon fixed expenses such as lunches or school supplies.
- ◆ Discuss continuing the allowance when young people get a job. You can either continue to pay the fixed expenses and let them pay their social expenses or suggest that they deposit more of their allowance into their savings account for future use.
- ◆ Discuss the amount to be saved from the allowance. Ten to twenty percent may be a reasonable amount.
- ◆ Have young persons keep a journal of expenses if they continually run out of money.
- ◆ Do not tie the allowance to basic chores you expect the child to do as a family member. Chores teach family responsibility.
- ◆ Discuss pay for doing extra chores, such as cutting the lawn or washing windows, especially if the child is saving for a big item.
- ◆ Establish rules for what to do about lost allowance money. Only money for necessities should be replaced.
- ◆ Allow children to negotiate a raise in their allowance.

Money Management Skills

Researchers who track spending patterns report that children and teenagers spend about \$200 billion dollars a year and influence another \$250 billion dollars of household purchases. Parents can help their children develop positive attitudes about money. Children can learn how to plan their spending to meet needs and financial goals. The first-hand experiences that children have in managing money provide valuable learning. When a parent is too quick to bail a child out of financial trouble, the child does not learn the consequences of over spending. Young people who have money management skills are more likely to be able to handle adult financial decisions such as purchasing insurance, using credit wisely, paying taxes, investing and saving for retirement plans. Parents and



teachers who encourage good financial skills are helping young people avoid potential financial problems as adults.

Visit the Department of Financial Institution's Web Site on **Parents**

Teaching Basic Economics

http://www.dfi.state.in.us/conscredit/teaching_basic_economics.htm

Dollars and Sense 101 <http://www.dfi.state.in.us/conscredit/DollarsSense101.htm>

Additional teaching information: The Copernicus Education Gateway Teachers Guide

"The Art of Budgeting"

www.visa.edgate.com/visa/english/teachers/lev_3/lesson_03/index_teacher_03.html ,

Money Responsibility

http://www.visa.edgate.com/visa/english/teachers/lev_2/lesson_02/index_teacher_02_le v2.html and

Allowance and Spending Plan

www.visa.edgate.com/visa/english/teachers/lev_2/lesson_01/index_teacher_01_le v2.ht ml

MY SPENDING PLAN

GOALS

Short Term (Toy, CD, sporting equipment, computer programs/games, etc.)

Long Term (College Fund, Car, Car Insurance, etc.)

RULES

ALLOWANCE \$ _____ DATE _____

WEEKLY BUDGET

FIXED EXPENSES	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
Lunches							
Transportation							
Contributions							
Savings							
Other							
FLEXIBLE EXPENSES							
Toys/hobbies							
Movies							
Entertainment							
Snacks							
Clothing							
Books/magazines							
CDs/Tapes							
Gifts							
Other							

DISCUSSION QUESTIONS AND TOPICS

1. Why should children learn money management skills?
2. How can parents help their children develop money management skills?
3. What information should be discussed when creating a spending plan for children?
4. Can an allowance teach children to be effective and responsible consumers? Explain.
5. How can parents help their children create an allowance that is realistic and fair?

ACTIVITY

Using the My Spending Plan worksheet, determine an appropriate allowance with your child/children. Have the child/children list both short and long-term goals. Then have them record their expenses on the worksheet. Rules for the use of the allowance should be decided by you and your child. Write the rules on the worksheet. An allowance has a tendency to just disappear unless you encourage the child to plan its use. When children get into the habit of controlling their spending, they will find it easier to live within their income for the rest of their lives.

Have students take the **Allowance and Spending Plan Quiz**. Print the quiz in Adobe at <http://www.dfi.state.in.us/conscredit/pdfs/allowance%20quiz.pdf>

Print the answers to Allowance and Spending Plan Quiz in Adobe at http://www.dfi.state.in.us/conscredit/pdfs/answers_allowance.pdf.

Have your class take the **Money Responsibility Quiz**. Print the quiz in Adobe at <http://www.dfi.state.in.us/conscredit/pdfs/money%20resp%20quiz.pdf>

Print the Answers to the Money Responsibility Quiz in Adobe at <http://www.dfi.state.in.us/conscredit/pdfs/answers%20money%20res%20quiz.pdf>

Have your class take the **Budget Quiz**. Print the quiz in Adobe at <http://www.dfi.state.in.us/conscredit/pdfs/budget%20quiz.pdf>

Print the Answers to the Budget Quiz in Adobe at http://www.dfi.state.in.us/conscredit/pdfs/answer_budget_quiz.pdf

Give students a copy of our **Brochure "What is a Budget."**

SOURCES OF ADDITIONAL INFORMATION

Articles

Accounts That Give Piggy Banks a Run For The Money by Debra Nussbaum. The New York Times, p. F7, (June 30, 1996).

Allowances: How do your kids fare? Consumer Reports, p. 6, (January 1997).

Kids and Their Cash. Newsweek, pp. 68-69, (October 2, 1995).

Your Kids & Your Money: The Answers, by Janet Bodnar. Kiplinger's Personal Finance Magazine, pp. 91-93, (May 1997).

Students Tackle a Subject With Interest; learning the fundamentals of investing can be a profitable lesson by Martha M. Hamilton. The Washington Post, p.WH9, (March 4, 1997).

A Synergistic approach to Consumer Education: Meeting the Needs of the 1990's, by Nancy M. Porter. Journal of Consumer Education, pp. 23-31, (1993).

Book

Kiplinger's Money Smart Kids (and parents, too!), Bodnar, Janet, National Book Network. Telephone: (800)253-6476. \$12.95.

Pamphlets

Children Learn Money management: Parents Know and Show How
Children Learn Money Management: Allowances
Children Learn Money Management: Facing the Spending Squeeze
Children Learn Money Management: Planned Spending and Saving
Children Learn Money Management: Getting Their Money's Worth
Children Learn Money Management: Don't Lose It!
Children Learn Money Management: Sharing Is Priceless
Children Learn Money Management: Parents Plan Action

Available free from:

Cooperative Extension Service
Division of Family and Youth Services
West Virginia University
614 Knapp Hall, P.O. Box 6031
Morgantown, West Virginia 26506-6031
Fax: (304) 293-7599

Teaching Your Children about Money: Information from your Credit Union

Available free from:

National Credit Union Youth Program
5910 Mineral Point Road
P.O. Box 391
Madison, WI 53701

You and Money, Investment Kit for Fourth to Sixth Graders

Available free from:
Fidelity Investments
(800) 544-6666

Internet

Visit the Department of Financial Institution's Web Site on **Parents Teaching Basic Economics** - http://www.dfi.state.in.us/conscredit/teaching_basic_economics.htm

Additional teaching information: The Copernicus Education Gateway Teachers Guide

"**The Art of Budgeting**" at www.visa.edgate.com/visa/english/teachers/lev_3/lesson_03/index_teacher_03.html ,

Money Responsibility at http://www.visa.edgate.com/visa/english/teachers/lev_2/lesson_02/index_teacher_02_le v2.html and

Allowance and Spending Plan at www.visa.edgate.com/visa/english/teachers/lev_2/lesson_01/index_teacher_01_le v2.ht ml

Kid's Money - <http://pages.prodigy.com/kidsmoney/index.htm>

National Center for Financial Education - Children and Money
<http://www.ncfe.org/index.htm>

ECONnections (Adobe):

Why We Save (Grades K-2) - <http://ecedweb.unomaha.edu/lessons/saveK-2.pdf>

My Money (Grades 4-6) - <http://ecedweb.unomaha.edu/ve/library/MYMO.PDF>

Life of a Dollar Bill (Grades 4-8) -

<http://ecedweb.unomaha.edu/ve/library/LODB.PDF>

Road to Roota (Grades 2-7) -

<http://ecedweb.unomaha.edu/ve/library/ROOT.PDF>

M & M Interesting Grades 6-8) - <http://ecedweb.unomaha.edu/lessons/M&M6-8.pdf>

Once Upon a Dime (Grades 6-9) -

<http://ecedweb.unomaha.edu/ve/library/DIME.PDF>

Banking Basics (Grades 7-12) - <http://ecedweb.unomaha.edu/ve/library/BASC.PDF>

Jump\$tart Coalition - <http://www.jumpstartcoalition.org>

Links to Other Budget Information - http://www.womensfinance.com/create_a_budget

Budget Calculators - <http://www.cuna.org/data/consumer/advice/calcs/calculators.htm>

More Budget Calculators - ..
http://www.dfi.state.in.us/conscredit/links_to_interactive_tool_calcul.htm###budget

WHAT IS A BUDGET?

A budget is a **spending plan** that you decide upon. It is based on how much you make (income) and what your monthly expenses are. By understanding your monthly income and expenses, you will be better able to manage your cash flow and determine how much debt, if any, you can assume.

HOW DO YOU FIGURE OUT A BUDGET?

You can use the following pointers and budget work-sheet to figure out your own monthly budget.

◆ **Start with your income.** Figure out your monthly take-home pay. That's the amount you bring home each month after taxes, etc. are withheld.

◆ **Prepare a list of your monthly fixed expenses.** Fixed expenses are the payments that you have to make each month, many of which are the same such as your rent or mortgage payment, utilities (take an average if not budgeted), and any credit payments you have.

◆ **List your monthly flexible expenses.** Your flexible expenses may vary from month to month, but you can control them more readily than you can your fixed expenses. In other words, you can decide whether and how much you will spend on them.

"Flexible expenses" include food, clothing, transportation, household expenses, and personal spending for entertainment, eating out, and other items that you have control over.

DECIDE HOW MUCH TO SAVE AND STICK TO IT

It is important to think of savings as a fixed expense so that you are sure to save a set amount each month. Otherwise, it is easy to

spend more on your flexible expenses and forget about savings.

Services are available through your employer and your bank to make it easier for you to save. These include payroll deductions, direct deposit of your paycheck, and automatic savings plans.

The budget worksheet will help you determine how much you can save.

CREATE A SPENDING PLAN

You should be sure to have some savings you can utilize in a financial emergency. But, you should create a spending plan that allows you to reduce your debts. If you have credit card balances, you should use your extra money to pay those balances off quicker. With-drawing savings from low-interest accounts to settle high-rate loans will save you money in the long run. Extra money sitting in a savings account earning less than 5% could be better utilized by paying off credit card balances being imposed interest at 21%.

TRY TO REDUCE YOUR EXPENSES

Cut out any unnecessary spending such as eating out and purchasing expensive entertainment. Clip coupons, purchase generic products at the supermarket, and avoid impulse purchases. Above all, stop incurring new debt.

HOW TO DEAL WITH FINANCIAL EMERGENCIES

A sudden illness or the loss of your job may throw you off your budget and make it impossible for you to pay your bills on time. Whatever your situation, if you find that you cannot make your payments, contact your creditors at once. Try to work out a modified payment plan with your creditors that reduces your payments to a more manageable level. If you have paid promptly in the past, they may be willing to work with you. Do not wait until your account is turned over to a debt collector.

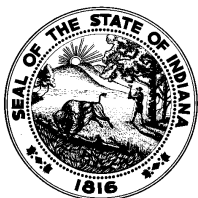
BUDGET WORKSHEET

FIXED EXPENSES:	
Rent/Mortgage.	\$
Credit payments	\$
Insurance.	\$
Medical	\$
Other	\$
FLEXIBLE EXPENSES:	
Food	\$
Clothing	\$
Transportation	\$
Household	\$
Personal	\$
Other	\$
TOTAL EXPENSES	\$
MONTHLY TAKE-HOME PAY	\$
LESS TOTAL EXPENSES	\$
SAVINGS	\$

The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit Reporting and Scams
Debt Collection Problems?
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
How to Cut the Costs of Credit
Identity Theft
Look Before you Lease
Mortgage Loans
Older Consumers
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Secured Credit Card Scams
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the
cover for a copy of any of the brochures listed or for
further consumer credit information. You can also
access information at our web site on the Internet:
<http://www.dfi.state.in.us>, then click on Consumer
Credit.



WHAT IS A BUDGET?



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
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Web Site <http://www.dfi.state.in.us>

